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E.O. 12958: N/A
TAGS: ENRG EINV ECON NI
SUBJECT: NIGERIA: STAKEHOLDERS BRIEF U/S JEFFERY ON BLEAK
POWER SECTOR OUTLOOK

¶1. (SBU) Summary: Nigeria's top electric power sector companies told Under Secretary of State Reuben Jeffery July 26 that the Government of Nigeria (GON) would not attain its ambitious goals to significantly expand electricity generation and distribution with its current policy mix, which discouraged investment in the sector. An inconsistent fuel supply, the GON,s dearth of technical expertise, and a culture of indecisiveness and neglect added to the bleak near-term outlook. On the bright side, representatives were guardedly optimistic about the possibility of supplying limited electricity via private sector "captive power generation" models. End Summary.

Government's Power Goals Unattainable

¶2. (SBU) Under Secretary of State for Economic Affairs Reuben Jeffery met July 26 with representatives of Nigeria's top private sector power companies. Power sector roundtable participants included:

--James Doak, Managing Director, AES Nigeria Barge Limited
--Robert Kremer, Risk Analyst, AES Nigeria Barge Limited
--Adewale Audifferen, Vice President, Global Energy (former GE Nigeria Managing Director); and
--Cyril Odu, Chief Financial Officer, ExxonMobil

¶3. (SBU) Company representatives agreed that the Presidential Commission on Accelerated Expansion for Electricity Infrastructure,s plan to deliver 6,000 megawatts (MWs) of generation capacity by 2009, and an additional 11,000 MWs by 2011 under the National Integrated Power Projects (NIPP), was unrealistic and unattainable in the current environment. Audifferen pointed out that while some equipment, including turbine units, had been imported, they had not been maintained. Should the government decide to acquire replacement turbines, a lead time of three to four years would be required from the time of purchase to installation. Further, current global demand is such that Nigeria would be competing with countries like China and India for a limited supply of the same equipment. Representatives lamented that an additional infrastructure

problem was that Nigeria's transmission lines had not had regular maintenance since the 1950s. Kremer suggested that if existing plants were refurbished properly, the country might be able to add as much as 4,000 MWs by 2012, however, it did not appear that the GON had the will to organize such a renovation.

Sector Challenges Discourage Private Investment
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¶4. (SBU) Representatives contended that the GON,s recently adopted Multi-Year Tariff Order (MYTO) regime to establish rates for electricity consumers would not help attract the level of private investment in the sector the government hoped for. Even with the MYTO, tariffs were set too low, yet, a cost-effective tariff regime was essential to ensuring firms would recoup their costs and find investment profitable. In addition, Audifferen estimated that the cost borne by power generators -- responsible for all line losses from point of generation to distribution -- amounted to eight percent of their potential revenue. Low tariffs, a virtually nonexistent gas supply, and revenue loss all contributed to discouraging private investment in the sector, he said. Odu pointed out that, in addition, any tariff structure would need an effective, enforceable collection scheme. Unfortunately the Power Holding Company of Nigeria (PHCN) was not making its current prepaid meter system work properly.

Loan, Payment Guarantees In Lieu of Positive History
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¶5. (SBU) Interlocutors agreed that in the absence of a "history of positive development" in the energy sector, the GON should offer sovereign guarantees to attract foreign investment to the power sector. Current high oil prices make it possible for the GON to extend guarantees, they believe, and banks would be disposed to lend money for investment if the government stood behind the project. However, Odu noted examples of the GON not living up to its commitments which undermined a healthy power and energy sector. For example, he said the National Electric Power Authority (NEPA) had not paid its share of the cost for the 450 MWs powerplant built by Italy's AGIP in Delta State, Shell had had to refinance funding for a project because the government had not paid its share pursuant to a joint venture agreement, and Shell's Power Purchase Agreement (PPA), pursuant to which it sells power to the national grid, was being questioned by the government.

Human Capital Needs Upgrading

¶6. (SBU) Audifferen said the level of technical capacity in the sector overall was low. Nigerian power plants are, on average, twenty years old and operated by technicians who have not had refresher training or skill upgrades in that entire period, he observed. Plants do not have the resources for retraining staff, and developing technical capacity is not a priority of the government. Doak said the dearth of skills in Nigeria is far more severe than elsewhere. By comparison, he said, in Jordan or Kazakhstan, power units might be old but people are capable of repairing and maintaining them.

Gas an Untapped Solution to Power Generation Fuel Shortage
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¶7. (SBU) Overall, Nigeria's reliance on oil has prevented the development of a diverse power generation portfolio, Kremer observed. Water shortages have curtailed the usefulness of hydroelectric plants and solar power was not an option except for housing. While natural gas is available, most is "associated gas," a byproduct of oil production, and natural gas production had not been developed to fuel power

generation, representatives explained. Therefore, supplies for power producers were inadequate and no power producer had a gas supply agreement in place. No agreement on the price of gas and no security for payment resulted in no investment.

Real Solution Requires Competent, Innovative Leadership
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¶8. (SBU) Representatives criticized President Yar'Adua's appointment of the current Minister of Power, Hajiya Fatima Ibrahim, as ill-advised. Ibrahim does not have a technical background in the electric power industry, they said, and as a result, she had to rely on people entrenched in the current system who brought no innovative ideas to the current challenges. Doak said his company, AES, had a favorable Power Purchase Agreement (PPA) with the GON and was willing to add 300-400 MWs of generation capacity. The stumbling block was that negotiations with the GON had stalled. AES had the units and turbines available for ramping up generation, and the GON seemed enthusiastic about the project, but the window during which the GON needed to make a final decision was fast closing. Without a quick decision, AES would have to commit the equipment elsewhere. (Note: AES Barge Nigeria, the only operating IPP in Nigeria, is seeking arbitration in a dispute with PHCN over the terms and conditions of its PPA. Payments on its existing PPA are perpetually in arrears. End Note) Given the gravity of Nigeria's electricity problem, which hinders economic diversification and industrialization, and the inherently

complex nature of the power sector, the GON urgently needs technically competent and innovative government leadership to break the stalemate and to demonstrate a commitment to following through on effective policies, they said.

Captive Power Model as the Way Forward

¶9. (U) As a way around the lack of electricity in the country, instead of relying on the government, those who can afford it have resorted to private sector arrangements, such as the captive power model, representatives noted. Under this model, private operators generate and distribute power off the national grid and collect tariffs directly from consumers. Given that only 60 percent of NEPA tariffs are collected at all and the cost of uncollected tariffs must be borne by power generators, the captive power model presents producers with an alternative model that may be somewhat successful, Audifferen contended.
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